Above the Parapet

Where Finance needs to position itself in the public sector
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Foreword: Finance in the public sector

The role and leadership of the finance function (“Finance”) in government and the public sector is of critical importance. There remains unprecedented pressure on public sector finances and the coalition government continues to pursue its challenging programme to cut public expenditure. Finance is increasingly in the spotlight and has a leading role to play. The scale of challenge for Finance has never been greater.

Previous reports over many years have pinpointed the centrality of Finance to the delivery of efficient and effective public services. Last year HM Treasury published a high level statement of intent designed to form the foundation for a finance transformation across central government. This report recognised that the public sector needs a fundamental shift in culture to become more fully commercial, adaptable and innovative. Finance must work in partnership with senior management and be integral to board decisions. Decisions need to be evidence based with clear financial consequences and public servants need to actively manage their financial performance.

The National Audit Office reported last year that good financial management is at the heart of an effective, well run organisation. In the last year HM Treasury and the Cabinet Office issued the corporate governance code for central government departments, which is underpinned by the need for sound financial management. And CIPFA’s March 2012 discussion paper, on shaping the finance function to meet new and future challenges, states clearly that top performing organisations must have top performing finance functions.

So the need for a high quality professional finance capability, to enable government and the public sector to deliver its programme and do its day job effectively, is recognised widely.

1 Spending Review 2010, HM Treasury, October 2010 and subsequent Budget announcements
2 ‘Managing taxpayers’ money wisely: commitment to action’, HM Treasury, January 2011
3 ‘Progress in improving financial management in government’, Report by the Comptroller and Auditor General, March 2011
5 ‘Emerging Stronger: shaping the finance function to meet new and future challenges’, Chartered Institute of Public Finance and Accountancy (CIPFA) discussion paper, March 2012
Today, Finance Directors and finance functions face a constant stream of challenges. New risks and conflicting demands from a wide range of internal and external stakeholders have increased the pressure on financial leadership. So the necessity for Finance to play a fully active part in the business at the board and strategic level is of paramount importance. Successful organisations need their finance functions to look beyond the traditional core functions of Finance and use their financial acumen and insight to drive new value and higher levels of business transformation and performance.

Against this background we carried out our research over a six week period from the beginning of February to mid March 2012, to examine the trends, issues and the changing environment faced by Finance Directors across the public sector. We explored the same range of issues this year as in the last three years, so as to understand current reactions to those issues and assess expected future developments in Finance6. Looking at trends allows us consistency in our reporting and facilitates benchmark performance and comparative analysis, such as to the private sector.

An additional benefit of asking the same questions, and assessing the same issues, over an extended period, is to build a track record and understand trends, and improvements over time. Transforming and changing a finance function is unlikely to be a short term process. But over an extended period clear trends can be discerned and that has been one of our objectives in this research, which we aim to continue each year.

Our report identifies how the finance function manages itself in the public sector, both viewed in aggregate and across each of the three sectors of central government, local government and health. We also assess how the role and challenges of the finance function in the public sector differs from private sector comparisons and how this has changed over the past four years. The themes that we explored in our research are shown in the table below.

We assessed how Finance:

- balances the competing demands of insight, efficiency and compliance & control
- is equipped to handle the financial challenges facing the economy
- derives value from investments in technology and shared services
- is perceived to add value
- is responding to change
- should be structured to best support the business
- seeks external best practice
- ensures that it has the right people with the right skills

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6 ‘Finance at the crossroads: The changing role of Finance in Government and the Public Sector’, PwC’s Public Sector Research Centre, May 2009; ‘A place at the top table?: Raising Finance’s game in the public sector’, PwC’s Public Sector Research Centre, May 2010; and ‘Stepping up: the challenges for Finance in the public sector’, PwC’s Public Sector Research Centre, May 2011
Additionally this year we focussed on certain issues specific to each of central government, local government and health. In central government we assessed the extent to which a cost conscious culture is embedded in that part of government. In local government we assessed the impact of the localism agenda and the need to do even more for less and do things differently in the future. In the health sector we assessed the impact of a service in transition and the influence of Finance and the extent of board support. We comment on our findings for each of these sectors in Sections 6-8 of this report.

Achieving a high performing finance function necessitates clarity on the role and mandate of Finance and the desired balance between the three critical roles, as we see them, of providing insight, driving efficiency and maintaining compliance & control. Such a function often requires changes in the areas of people, process and systems.

The triangle opposite is our means of representing the three dimensions of the finance function which need to be balanced by financial management. This enables us to view how organisations manage the challenges of balance today and how they may wish to position themselves in the future. Not all organisations will strive to achieve top performance in all areas. Balancing these demands to deliver optimal value to the wider organisation is a fundamental challenge facing finance teams today.

**Efficiency** in Finance means performing tasks in a timely and cost effective manner. This is typically achieved through simplified and standardised processes that leverage technology and make improvements to the efficient delivery of transactional processing through shared services or outsourcing.

**Compliance & control** is about the need to optimise financial risk management, compliance and control to establish a sustainable cost effective control environment which meets today’s requirements as well as being flexible for future changes.

**Insight** is increasingly important in effective finance function delivery. It is about Finance adding value to the organisation and supporting the strategic and operational decision-making process.
Foreword: Finance in the public sector

Methodology

The research for our first report four years ago covered just over 30 respondents. We are delighted that we have seen a threefold increase over the intervening period. This year our research covers just over 90 respondents from central government and its Arm’s Length Bodies, agencies and a wide variety of local authorities and health bodies. We appreciate and value the time of all those respondents who contributed.

Some 9 in 10 respondents to our research were Finance Directors or equivalent status and the balance of respondents were direct reports to the Finance Director. The central government respondents included a range of both policy and delivery departments and organisations. Just over three quarters of the respondent organisations operate in England and some one in six of the respondent organisations operates in each of Wales and Northern Ireland and some one in eight operates in Scotland.

The demographics of the respondents to our research, by public sector activity, are shown in the table below.

<table>
<thead>
<tr>
<th>Public Sector Activity</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local government</td>
<td>45%</td>
</tr>
<tr>
<td>Health</td>
<td>22%</td>
</tr>
<tr>
<td>Central government (including devolved administrations)</td>
<td>18%</td>
</tr>
</tbody>
</table>

In order to compare and contrast, as in previous years, we have included in Section 9 of this report our analysis of the performance of Finance in the private sector, which we have researched recently.

This report is our 2012 contribution to the ongoing and increasingly important debate of the critical role of Finance in government and the public sector.

John Berriman
Chair, PwC’s Government and Public Sector Finance Board

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7 Our research was supported by PwC’s Belfast-based International Survey Unit (ISU) which administers a wide range of financial and leadership research internationally.
Executive summary and a call to action

Introduction

Public sector finance issues have increasingly become centre stage in recent years and never more so than in the current period of financial austerity. Against this background we have undertaken annual research over the last four years into the status of the finance function in the public sector.

Making changes to a long established function in any organisation is inevitably a slow process. But change has been needed and there is positive and encouraging evidence that it is happening in the public sector and that finance functions are slowly starting to be perceived and to act differently.

We argued in May 2009 that Finance was at a crossroads and that it needed to speak up and be much more than just a scorekeeper. Since then, in our subsequent reports, we have emphasised the importance of Finance really stepping up and taking its proper place at the top table. Now in 2012 we believe the time has come for Finance to firmly put its head above the parapet and make sure that Finance really does operate as an equal business partner.

Vision and Strategy of Finance

Respondents to our research this year reported that primarily they were seeking to be a first class finance function and an integrated business partner. The responses this year seem more in keeping with the ambition that we would expect of forward-looking Finance Directors. Overall Finance appears to be setting its sights higher than in previous years and this is encouraging in terms of instilling stronger financial management at the top table as the norm rather than the exception.

Nearly one third of respondents reported that, in terms of the vision and strategy of their finance function, their strategic involvement has changed to a great extent over the past year. The greatest extent of change has been an enhanced focus on operational and service change, such as cost reductions and efficiency transformation.

Challenges for Finance

Our research confirms that Finance still has some big challenges. The main ones that were reported to us were: managing change; resourcing issues; organisational change; increased involvement in strategy and planning; and financial uncertainty. Each of these challenges was also reported last year. However, a year ago reduced funding and cost efficiency savings were reported to be significant challenges for Finance, whereas now they appear to have dropped down the scale.
Yet given the scale of the ongoing financial challenges facing the public sector, we continue to be surprised that relatively few Finance Directors reported that they see high value in seeking best practice from other organisations. We encourage Finance Directors and their teams to take a closer look at other finance functions in both the public and private sectors and use the insights learned from leading innovators to refine the development of the public sector Finance operating model.

**The role of Finance**

The largest number of respondents this year (36%) reported that they were viewed internally as business partners, working closely with the organisation, influencing, designing and executing strategy. Only 9% of respondents described themselves as scorekeepers. That said, there still remain important gaps in business partnership capabilities, in particular around cost and performance management and procurement and a deep understanding of the delivery aspects of the business.

Four years ago one in five respondents to our research reported that Finance was viewed internally and by key stakeholders as a scorekeeper and one in five reported that they were perceived as a business partner. The shift over the intervening years is encouraging. The challenge now for Finance is to fulfil the perception and consistently provide the high quality insight and skills that public sector bodies demand of their finance functions.

Virtually every respondent to our research reported that in three years time they would like Finance to be perceived by internal customers and other key stakeholders as a business partner. The reported barriers that would prevent the perception of Finance changing were reported to be primarily people-related matters, including lack of resources, cultural issues, the challenges of managing change and lack of skilled staff. Interestingly one in eight respondents reported that there are no significant barriers.

**Balancing the competing demands of efficiency, compliance & control and insight**

Every finance function has a wide range of responsibilities and priorities to juggle. Finance needs to run efficiently and demonstrate value for money, to establish and maintain effective controls in order to manage risk and to deliver real insight into the business. It was against these three dimensions that our annual research has measured the performance of Finance.
Respondents reported that overall they spend 30% of their time on efficiency, 40% on compliance & control and 30% on insight. Their aspiration for three years time is to hold time on efficiency at 30% and reduce compliance & control time to 25%. The time released is to be invested in insight, so increasing that to 45%.

The position is consistent sector by sector, in contrast to last year, when central government department respondents reported that they were spending slightly less than the average on efficiency (25%) and health respondents reported that they were spending less than the average on insight (25%) and more on compliance & control.

In our view it will still take a continuing change of culture and mindset for Finance to spend further time on insight activities, both within Finance and the senior leadership teams across the whole public sector. But the aspiration is to be welcomed and encouraged and is a pre-requisite to being an effective business partner.

**Efficiency**

Efficiency in Finance means performing tasks in a timely and cost effective manner. Just a very small minority of respondents (4%) self assessed their finance function in terms of efficiency matters as high performing today, in the context of the organisation’s priorities. Some six out of ten respondents aspire to be high performing in three years time.

Our research over the last four years suggests that public sector organisations have become more efficient at the effective processing of transactions and that plans for shared services, particularly in central government, are more widespread. Progress needs to continue on this important agenda.

The more that efficiency activities are undertaken smoothly, the more Finance will have the time to devote to its other activities. In particular, it can then tackle compliance & control issues and focus time and resource on the provision of high quality insight. This is one important hallmark of a business partner.

**Compliance & control**

Compliance & control is about establishing a sustainable, cost effective control environment which both meets today’s needs and is flexible for the future. More than half the respondents to our research believe they have a comprehensive controls framework. Just under 90% of respondents aspire to reach controls optimisation in three years time.

Respondents estimated that they currently spend 40% of their time on compliance & control activities, in line with last year. Respondents said that they are looking to reduce the time commitment in this area to 25% in three years time, which is slightly less than the reported level of 30% last year. Comparable data suggests that top performing finance functions in the private sector spend in the order of 20% or less of their time on compliance & control. So the reported move in the public sector is a trend in the same direction as the private sector. But the challenge to reduce the time spent in this area should not be underestimated.

Similar to Efficiency, just a very small minority of respondents (4%) self assessed their finance function in terms of compliance & control matters as high performing today, in the context of the organisation’s priorities. There are two key areas to consider here; procurement and risk.
Procurement

Specifically on procurement, as many as 10% of respondents still assess themselves as performing poorly and only a very small minority (7%) rated themselves as high performing.

External spend is a significant proportion of operational and infrastructure costs and Finance Directors need to procure with more confidence, so better procurement programmes will be necessary to generate cashable savings in both the short and medium term. Public sector bodies need efficient and effective procurement models. They need to reduce waste and enable good practice in commissioning with external business partners. There is a clear aspiration however to improve and it is encouraging that just under half of the respondents reported that they have change initiatives planned or in hand for procurement. This is significantly higher than last year when just one in five respondents reported that they had improvement plans in hand.

Only when Finance has sorted out the compliance & control environment effectively will it be able to find the time that it needs to focus strategically and provide more and deeper added value insight to the organisation. These actions taken together will help Finance to secure its aspiration to be a genuine business partner.

Risk

When it comes to risk, the public sector does not generally have effective and efficient mechanisms embedded within financial systems to provide control activities on a continuous basis. And the research suggests that the public sector is both conservative and has a particular aversion to risk.

Overall responsibility for risk management and control belongs in the hands of executive management who need to manage business and compliance risks. But Finance needs to lead from the front and embed a controls culture deep within the organisation that it supports. It needs to strip out non value-adding controls and processes and bring its risk and control consciousness to the top of the organisation.

Building control upon control simply serves to create complexity and increase cost. The key is the effective management rather than the elimination of risk. This means Finance equipping line management with the skills to design and operate efficiently controlled processes. And it means integrating risk and control processes, stewardship and accountability reporting and creating a joined up framework to assess and monitor organisational risks.

Insight

Insight is about Finance adding value to the organisation and supporting the strategic and operational decision making process. Respondents reported that they currently spend 30% of their time on insight (in line with last year) and they are looking to increase this to 45% in three years time. This compares to the reported three year aspiration of 40% last year, which itself was higher than the 30% in the previous two years. So the longer term aspiration is increasing steadily.

Strong insight and analysis capability is a prerequisite if Finance is to meet its own aspirations to step up across the board to become a business partner. Our research shows that the ambition is there for finance functions to provide quality insight and to act as a business partner. But history shows that the rate of progress is much slower than anticipated.
Again, just 2% of the respondents to our research rated overall finance function insight activity as high performing today, in the context of the organisation’s priorities. There is an insufficient level of high performance in terms of a number of specific insight activities including cost and performance management and business analysis skills. Hard tangible actions will need to be taken if future aspirations are to be met. The right level and capability of resourcing will also be crucial. A reported focus on training and staff development is a welcome action, with over 60% of respondents indicating that they had such plans already in place and 40% of respondents reporting that they had future plans in this area.

**The crucial importance of people and leadership**

Our research reconfirmed that people-related issues underpin many of the perceived barriers to future success for Finance. Respondents reported that the barriers that would prevent the perception of Finance changing to the role of business partner included a lack of resources and skills, the challenges of managing change and culture.

People management strategies are essential ingredients of success and need to be in place to manage recruitment, deployment, performance, talent generation, career planning and succession. Finance needs to reflect carefully on the range of skills it needs to fulfil the business partner role.

Experience in the private sector suggests that new finance professionals are emerging. Finance needs to identify those people with the potential to take on insight roles and develop clear career paths. Identifying, supporting and retaining people with potential are important to the development and success of these operations.

Short secondments of finance professionals both to and from other organisations in either the public or private sectors are seen by many as a beneficial developer of talent.

Business partnering is still to fully live up to expectations in the private sector. So adopting a sense of realism of what can be achieved in the public sector and in what timescale is important to manage expectations. Finance will only be able to do so much on its own and will want to continually engage with the leadership of the whole organisation to drive change. This is an area where the sharing of lessons with a range of other organisations who have initiated culture change will be of particular benefit.

The approach to changing culture in the public sector needs to be driven right from the top of the organisation. Most importantly the whole leadership must embrace change and set the tone from the top. By the top we mean the Permanent Secretary, or Chief Executive, with the support of the whole board, the non executive directors and senior policy makers. Indeed, without this leadership, it is difficult to see how Finance can fulfil its goal of being an effective business partner.

**Effective people management strategies will be essential ingredients of future success**

**Issues arising in each of central government, local government and health**

This year we additionally researched some issues specific to each of central government, local government and health. In central government we assessed the extent to which a cost conscious culture is embedded in that part of government. In local government we assessed the impact of the localism agenda and the need to do more for less and do things differently in the future. In the health sector we
assessed the impact of a service in transition and the influence of Finance and the extent of board support. We comment briefly on the key issues arising in each sector below.

**Central government**

Central government is seized of the need for driving financial awareness through both departments and Arms Length Bodies. The vision for the Finance Transformation Programme, overseen by the Government Finance Profession, lays out a clear endgame in terms of people, process, IT and structure for each of the four key enablers of success.

Our research shows that there is still some way to go to embed the principle of a cost conscious culture across central government. Respondents have stated that stronger leadership of this agenda is required across their government departments. Concurrently there is a need to up-skill the capability of central government finance teams, through staff development activities and to enhance their commercial, business and communication skills. There is also a plea from Finance in central government to the centre to simplify processes and minimise the level of ad hoc requests made to individual departments.

**Local government**

Finance in local government is charting a challenging course. On the one hand stewardship and safeguarding of public money and assets is critical. On the other, austerity and new ways of working mean that local authority finance professionals have to adopt new approaches. This means more focus on acting as a business partner, being more proactive than reactive and more capability of assessing options and alternatives on a commercial as well as ‘public money’ basis. These two perspectives require different but equally valuable skills and approaches.

Never before has there been such a challenge upon council finance leaders to secure the duality of keeping the score and acting as a diligent caretaker on the one hand and innovator and business partner on the other. Our perspective is that each of these is essential. The skills required, culture and thinking of individuals delivering these roles may be different, but one is not more important than the other. So the challenge for finance leaders in local government is to make space and create the right capacity for a more personal, creative and innovative business partnering approach.

**Health**

We are in a time of significant change in health. Our research indicates that health finance professionals are losing confidence in their ability to manage the financial challenge ahead at a time when their numbers are being reduced within the service. The uncertainty over the proposed changes over the past year has meant that the pace of change across the country has been variable, leading to different and in some cases temporary models of management.

It is important to establish strong and effective governance and risk management at this time of uncertainty. Commissioners and providers will require quality management information to measure performance and outcomes and to demonstrate service improvement. This will require the development of new...
The underlying difference between the front runners and the rest in the private sector is their ability to change their mindset and approach. Farsighted finance teams have taken the cultural leap. They are making sure that forecasts are timely enough, accurate enough and sufficiently sensitive to business drivers to provide a clear and genuinely actionable basis for strategic and performance management. This is underpinned by close engagement with the business, a clear understanding of its commercial objectives and a willingness to challenge strategy where necessary.

While many of the traditional roles and career paths in Finance may be closing, these developments provide finance professionals in the private sector with an opportunity to carve out a more influential strategic role in the evolving world of modern business. The profile of the typical finance professional is also changing, with a growing expectation for well-developed business understanding and engagement skills, as well as sharp technical and analytical insights. There is much here for the public sector to reflect on and address within their own organisations.
Conclusions and a call to action

The scale of the public sector austerity challenge means that the finance function is in the spotlight as never before, with a leading role to play in the management of the public finances and in support of the government programme to cut public expenditure.

Finance functions are slowly starting to act and be viewed differently with a greater perceived role as a business partner. But making deep rooted changes to a long established function in any organisation is inevitably a slow process. Change has been needed, and there is positive and encouraging evidence from our research over four years that it is happening. This is to be welcomed and the efforts made applauded.

Having said that, respondents to our research report that people issues are the key barriers that are preventing the perception of Finance changing to the role of business partner. These include a lack of resources and skills, and the challenges of managing change and culture. We therefore make three calls to action: to mould the future finance function in the shape of a more insightful and agile business partner; to support the development of the finance professional for the future; and to change the culture of Finance to an outward-looking one which seeks out, and learns from, the best.

A new model of finance function effectiveness is emerging in the private sector as complexity, volatility and ambiguity become the norm and strategic agility becomes the key competitive differentiator. This is clearly a not dissimilar agenda to the public sector. Finance teams need to become sharper and more focused on their role providing the analysis and support needed for decision-making. They are also developing leaner and more efficient use of their resources to make sure they are delivering where it counts.

The future finance professional will also need to develop in a different way to the past. We see the profile of the typical finance professional changing in the private sector, with a growing expectation for well-developed business understanding and engagement skills, as well as sharp technical and analytical insights. This is important as both the public and private sectors will be fishing in the same talent pool for future finance professionals.

It is striking that the appetite to learn from the best, be it in the public or private sectors, has continued to remain a minority sport. Today still less than a quarter of respondents to our research see high value in seeking best practice from other organisations. Yet there remains compelling data to show that the best enjoy a significant cost and operational advantage over the median performers, certainly in the private sector. The public sector would benefit from learning about and from the best run Finance organisations. It could do so for example through using a combination of techniques such as benchmarking or process simulation. Others have found these routes very powerful. This approach could for example help to address the entrenched issues around the relatively poor procurement capability in the public sector.

With the public sector under pressure as never before, now in 2012 we believe the time has come for Finance to firmly put its head above the parapet and make sure that Finance really does operate as an equal business partner, providing the insight needed to optimise both financial management and strategic decision-making in austere fiscal times.
The challenges for Finance

Introduction

We sought through our research to understand Finance respondents’ vision and strategy for their finance functions, the key issues facing the functions today and the likely key issues in three years time. This Section of our report explores the findings and in particular assesses how Finance balances its competing demands.

Vision and Strategy

The table below illustrates the range of responses on vision and strategy. 33% of respondents reported that their vision and strategy was for Finance to be a first class Finance function to the business (compared to 17% of respondents last year). A further 33% of respondents reported that their vision and strategy was to be an integrated business partner (compared to 15% of respondents last year). Nearly 20% of respondents reported that they wanted to influence the strategy of the organisation they support (compared to 25% of respondents last year).

<table>
<thead>
<tr>
<th>Vision and strategy for Finance</th>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Be a first class finance function</td>
<td>33</td>
</tr>
<tr>
<td>Be an integrated business partner</td>
<td>33</td>
</tr>
<tr>
<td>Influence strategy of the organisation</td>
<td>18</td>
</tr>
<tr>
<td>Provide a support function to the business</td>
<td>7</td>
</tr>
<tr>
<td>Provide value for money</td>
<td>6</td>
</tr>
<tr>
<td>Provide increased efficiency</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
</tr>
</tbody>
</table>
We expressed surprise last year at the low number of respondents who expressed a desire to be an integrated partner to the business. The response levels this year seem more in keeping with the ambition that we would expect of forward-looking Finance Directors. Overall Finance appears to be setting its sights higher than in previous years’ research and this is encouraging in terms of instilling stronger financial management at the top table as the norm rather than the exception.

Similar to last year, just over two thirds of respondents reported that they had a written vision and strategy that aligns to the business strategy of the organisation, with a further 12% having a vision and strategy that covers Finance only. A written vision or strategy for Finance seems to us to be a bare minimum requirement for a well managed finance function and we remain surprised that still nearly a fifth of respondents do not have one. That said, it is encouraging that only 13% of central government respondents reported that they still have no written vision or strategy for Finance.

A clear vision and strategy for Finance enables it to align to the priorities of the organisation. It also ensures that other board colleagues and finance teams are clear on where the Finance Director is taking the finance function and the improvements they can expect to see. Indeed, it is not only important that board colleagues and finance teams know the direction of Finance, but that this is also communicated throughout the non-financial and operational parts of the business, in particular to those people charged with delivery who have budgetary responsibilities.

Finance and non-finance teams alike must also understand how Finance has organised itself to engage with others, deliver the services required and progress its vision and strategy. Finally, working to promote a reasonable level of financial competency, particularly amongst those in senior management leadership, must be an important aim.

The table below indicates the extent to which the vision and strategy for Finance has changed in the past 12 months.

Nearly one third of respondents reported that, in terms of the vision and strategy of their finance function, their strategic involvement has changed to a great extent over the past 12 months. The greatest extent of change has been an enhanced focus on operational and service change, such as cost reductions and efficiency transformation.
Challenges

We comment below on the challenges facing Finance in the organisations that we researched. Finance reported that their main challenges were: managing change; resourcing issues; organisational change; increased involvement in strategy and planning; and financial uncertainty. Each of these challenges was also reported last year. However, a year ago reduced funding and cost efficiency savings were reported to be significant challenges for Finance. It is interesting to see those challenges reducing in magnitude one year on, although not for local government respondents.

Managing change has been the main challenge reported to us in each of the last three years. Change for Finance is likely to remain an ever-present feature of doing business. Indeed the pace of change in the current environment is likely to accelerate. Finance leaders must be comfortable with change and continually ask what contribution they need to make to change Finance into a customer-focussed, outward-looking value adding function.

A specific challenge for Finance is how to use its particular knowledge, skills and innovative thinking to drive forward a corporate simplification programme for the business so as to embed sustainable cost reduction and avoid short term reversible cost cutting measures.

The impact of resourcing issues is felt most strongly by central government respondents, whereas local government respondents reported the impact of financial uncertainty as their most significant challenge. An increased involvement in strategy and planning is cited as the main challenge for health respondents.

As shown in the table below, the issue of highest importance for Finance this year (at 81%) is the influence it has on the organisation.

### Importance to respondents of key Finance challenges (%)

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Low</th>
<th>Medium</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>The influence which Finance has on the organisation</td>
<td>18</td>
<td>40</td>
<td>55</td>
</tr>
<tr>
<td>The extent to which Finance supports the organisation in delivering savings</td>
<td>20</td>
<td>60</td>
<td>22</td>
</tr>
<tr>
<td>How Finance is perceived to add value</td>
<td>38</td>
<td>60</td>
<td>22</td>
</tr>
<tr>
<td>How Finance is responding to change</td>
<td>58</td>
<td>55</td>
<td>55</td>
</tr>
<tr>
<td>The people and skills challenge</td>
<td>39</td>
<td>40</td>
<td>55</td>
</tr>
<tr>
<td>Balancing the competing demands of efficiency, compliance &amp; control and insight</td>
<td>20</td>
<td>51</td>
<td>29</td>
</tr>
<tr>
<td>How Finance should be best structured to support the organisation</td>
<td>22</td>
<td>60</td>
<td>22</td>
</tr>
<tr>
<td>Seeking external best practice from other organisations</td>
<td>18</td>
<td>60</td>
<td>22</td>
</tr>
<tr>
<td>The extent to which Finance delivers savings in its own running costs</td>
<td>18</td>
<td>60</td>
<td>22</td>
</tr>
</tbody>
</table>
organisation. This compares to last year when an overwhelming 94% (78% this year) of respondents reported that the issue of highest importance was the extent to which Finance supports the organisation in delivering cashable savings. Other highly important issues include: how it is perceived to add value; responding to change; and the people and skills challenge. We discuss leadership, culture and the importance of people and skills in Section 5. Balancing the competing demands of the three dimensions of efficiency, compliance & control and insight continues to be an important issue for Finance and we assess this further in Section 4.

Other challenges, such as how to best structure Finance to support the business, the extent to which Finance delivers savings in its own running costs and seeking external best practice were generally seen by respondents as medium rather than high priority.

A fifth of respondents this year and last year consider that seeking external best practice is of high importance and a further fifth of respondents (this year and last year) view it of low importance. Given the scale of ongoing financial challenges facing the public sector, we continue to be surprised that relatively few Finance Directors reported that they see high value in seeking best practice from other organisations. As agents of change we encourage Finance Directors and their teams to take a closer look at other finance functions in both the public and private sectors and use the insights learned from leading innovators to refine the development of the Finance operating model.

In Section 9 we highlight what sets Finance top performers apart in the private sector. We provide some compelling research evidence that shows top performers in the private sector enjoy significant cost and operational benefits over median performers. We believe that it is clearly worth the effort of public sector finance teams to explore and understand the reasons for this and translate the lessons learned to their finance businesses.

The role of Finance

We asked respondents to assess how they felt Finance was perceived by internal customers and other stakeholders, along a continuum from scorekeeper at one end, through commentator, diligent caretaker to business partner. This assessment can be considered a measure of the maturity of Finance. We saw a continuation of the trends we have witnessed over the last three years and in particular we have seen an increasing level of business partnering.

As the table opposite shows, a majority of respondents (36%, up from 31% last year and 22% the year before that) see their role in Finance as business partners. In this role Finance works closely with the organisation, influencing, designing and executing strategy. Here finance teams are well developed and fully enabled with supporting tools, resources and skills, which are made available to contribute to business projects with the capability to model, analyse and support change programmes.
In previous years the largest number of respondents (32% this year, compared to 35% last year and 25% the year before that) described themselves as diligent caretakers. This is a role where Finance roles are significantly enabled and resourced to cope with a select number of priority projects. The diligent caretaker role can be seen as a given or hurdle requirement for Finance as the protector of taxpayers’ monies.

A further 23% of respondents (30% last year and 44% the year before that) describe themselves as commentators. Here Finance recognises the need to support the organisation, helps drive performance and supports major change and decisions. It is where Finance has made some limited change in terms of roles and responsibilities to support the organisation. Over a third of central government respondents believe Finance is currently perceived as a commentator by internal customers and other key stakeholders.

Virtually every respondent to our research reported that in three years time they would like Finance to be perceived by internal customers and other key stakeholders as a business partner. The barriers that would prevent the perception of Finance changing were reported to be primarily people-related matters, including lack of resources, cultural issues, the challenges of managing change and lack of skilled staff. One in eight respondents reported that there are no significant barriers.

### Conclusions on challenges for Finance

Our research confirms that Finance still has some big challenges and they are largely consistent with last year. It is however encouraging that Finance appears to be moving along the maturity continuum. Finance reports that it is increasingly perceived to be acting as a business partner, both working closely with and being integrated with the organisations it supports.
Balancing competing demands

Introduction

We asked respondents to our research to self-evaluate their performance in terms of managing the competing demands of efficiency, compliance & control and insight. This Section of our report explores the results of this self evaluation.

Both this year and last year respondents reported that overall they were spending 30% of their time on efficiency activities, 40% on compliance & control and 30% on insight.

The position is consistent sector by sector, in contrast to last year when central government department respondents reported that they were spending slightly less than the average on efficiency (25%) and health respondents reported that they were spending less time than the average on insight (25%) and more on compliance & control.

Looking to the future, the reported overall aspiration for Finance is to maintain the time spent on efficiency activities at 30% (the same as reported last year) and to reduce time spent on compliance & control to 25% (less than the 30% reported last year) and use the time freed up to invest in insight, so increasing that to 45% (40% reported last year) of time spent.
The Efficiency agenda

Efficiency in Finance means performing tasks economically in a timely and cost effective manner, having regard to regularity and propriety. Cost effectiveness is required to deliver desired outcomes more quickly and efficiently. The challenge is greater than ever now as more fundamental change is needed to deliver real sustainable savings. Typically this change is achieved through simplified and standardised processes that leverage technology and improvements to the efficient delivery of transactional processing through shared services or outsourcing. This facilitates the collection, analysis and presentation of financial information in a meaningful way. Quality information is required that links financial and performance data.

Our research reveals that respondents estimate that overall they are spending 30% of their time on the efficiency agenda, the same as in the last two years. Just 4% (11% last year) of the respondents to our research rated Finance efficiency as high performing today, in the context of the organisation’s priorities. But, in the medium term, 59% (57% last year) of all respondents aspire to be high performing. For those that do not aim to be high performing, they are virtually all aiming to be performing well.

There was a wide range of planned change initiatives reported by respondents, in the context of even more being expected for less. The main areas of focus were in efficiency and cost improvement programmes, technology investment and training and staff development.

Other main planned initiatives include finance restructuring and integration and the use of shared services.
Just under two thirds of respondents (28% last year) reported plans for technology investment so there has been a significant increase in plans in this area. It is the main change initiative planned by local government respondents. By contrast, three quarters of central government respondents cited training and staff development as their main change initiative.

Half the respondents (60% last year) have plans to enter into new or revised shared service arrangements. While local government respondents indicated that shared services were not a major planned initiative for them, three quarters of central government respondents indicated that they have plans to enter into shared services. The main shared service proposals include developing cross departmental shared services, developing internal shared services and working with Arm’s Length Bodies.

We have commented in our previous reports that “the widespread and effective implementation of finance shared services and enabling technology, to improve efficiency, generate significant cost savings and let Finance focus its time on higher value insight activities, is crucial”. So it is encouraging to see from our research this year that there continues to be a real intent in government and the public sector to deliver on that agenda. Finance will be increasingly required to work with other support functions such as HR and IT, for example, to leverage tools and methodologies in a co-ordinated manner for the benefit of the organisation as a whole. Becoming more efficient at the fundamental back office processes should be a core skill for Finance.

Respondents reported that for them the main barriers to success were people-related matters such as a lack of skills and resources, the challenges of managing change and cultural resistance to change. More than half of central government respondents cited organisational and cultural resistance to change as the main obstacle that may prevent them meeting their Efficiency aspirations.

It is encouraging that some 59% of respondents reported that they have plans for training and staff development in order to secure change in this area, as the primary obstacles are people-related. This compares to just one in six who had such plans last year. We continue to hold
the view that the implementation of appropriate strategies for learning and development for future finance leaders and their teams will be a critical ingredient for success. Communication and influencing skills, not often historically a key part of the accountant’s development plans, are now emerging as fundamental to Finance being at the top table.

We evaluated efficiency performance in general and specifically for external financial reporting, general accounting, accounts payable and receivable and management accounting. The tables below show how respondents assess the efficiency performance of their organisations in terms of the specific processes listed, now and in three years time.

81% of respondents (76% last year) reported that for external financial reporting they believe they are performing well or are high performing. This continues the steady improvement over each of the last three years. This is not a static agenda and the continued improvement in the self assessed level of performance is encouraging.

The timelines for public sector external financial reporting are not as demanding as in the private sector and so generally there is more time available to address reporting issues.

We reported that last year high or well performing activity for each component was self assessed as being anywhere between nine (general accounting) and 20 (accounts payable and accounts receivable) percentage points better than the previous year. These increases suggested that transactions were being processed more efficiently. Change this year by contrast is small.

The ambition expressed by virtually all respondents is for all the above transactional activities to be performed well or to be high performing in three years time. The biggest challenge will be to turn the current rate of 8% high performance for management accounting into a 65% rate of high performance in three years time. The ambitions are to be welcomed and the key will be the delivery and a relentless focus on continuous improvement.

<table>
<thead>
<tr>
<th>Transactional performance in three years time (%)</th>
<th>0</th>
<th>20</th>
<th>40</th>
<th>60</th>
<th>80</th>
<th>100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management accounting</td>
<td>1</td>
<td>34</td>
<td></td>
<td></td>
<td></td>
<td>65</td>
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<tr>
<td>External financial reporting</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>General accounting</td>
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<td></td>
<td></td>
<td></td>
<td>55</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>2</td>
<td>47</td>
<td></td>
<td></td>
<td></td>
<td>51</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>4</td>
<td>45</td>
<td></td>
<td></td>
<td></td>
<td>51</td>
</tr>
</tbody>
</table>

- Performing adequately
- Performing well
- High performing
The Compliance & control agenda

Compliance & control continues to be the area that takes the most time within the overall agenda of Finance in government and the public sector. This is in sharp contrast to the private sector. It is about the need to optimise financial risk management, compliance & control to establish a sustainable, cost effective control environment which meets today’s requirements, as well as being flexible for future changes. It is not about eliminating risk but about managing it appropriately. The continued demands of public sector scrutiny and the fear of failure has a direct bearing on the proportion of time spent on compliance & control.

We asked respondents how far they were along the continuum from: a basic controls framework; through controls focussed in finance; to a comprehensive controls framework; and to controls optimisation. The results of our research, showing the current position and the aspiration for three years time, are shown in the table below.

<table>
<thead>
<tr>
<th>Compliance &amp; control maturity (%)</th>
<th>Current time</th>
<th>Three years time</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 21 55 23</td>
<td>1 12 87 1</td>
</tr>
<tr>
<td>Basic control framework</td>
<td>Basic control framework</td>
<td></td>
</tr>
<tr>
<td>Controls focused in finance</td>
<td>Controls focused in finance</td>
<td></td>
</tr>
<tr>
<td>Comprehensive controls framework</td>
<td>Comprehensive controls framework</td>
<td></td>
</tr>
<tr>
<td>Controls optimisation</td>
<td>Controls optimisation</td>
<td></td>
</tr>
</tbody>
</table>
Our research reveals that a majority (55%) of respondents (59% last year and 54% the year before that) believe they have a comprehensive controls framework. This means that key finance, operational and compliance controls have been determined, but that the number may be excessive when compared to relative risk, and/or the controls have not been subject to any review for design or operating effectiveness.

By contrast, no more than two respondents in each of the last four years report they have a basic controls framework. This is where there has been little or no assessment undertaken as to which controls are key to the financial, operational and compliance needs of the business.

Looking ahead three years, just under nine in ten respondents (nearly three quarters of respondents last year) aspire to controls optimisation and just over 10% (24% last year) aim to have a comprehensive controls framework in place. Controls optimisation is where the number of key controls have been critically reviewed for effectiveness and tailored for risk and the assurance they provide. These controls are monitored through an established testing programme.

Respondents estimated that they currently spend 40% of their time on compliance & control activities, which is consistent with the reported level of last year. In previous years the levels reported have varied from 45% to 50%. So this area has seen a degree of fluctuation in the recent years, as priorities for Finance have changed, but now it seems relatively settled at 40%.

Respondents said that they are looking to reduce the time commitment in this area to 25% in three years time. This is less time than the aspiration last year, which was 30%. Comparable data suggests that top performing finance functions in the private sector spend less than 20% of their time on compliance & control. So the reported move in the public sector is a trend in the same direction as the private sector. The challenge will be to actually get there whilst balancing all the competing demands on Finance.

The public sector continues to retain the conservatism and aversion to risk on which we and others have commented before. In previous years we have raised a number of possible reasons for this, ranging from the impact of public scrutiny and accountability, the consequence of the regime of targets and the fear of failure and public castigation. A further possibility is that Finance is regarded by some as a back office function, maintaining the black box, focussed on compliance & control, rather than being used to provide strategic insight. Whatever the causes, there are important risks to manage. We continue to hold the view that the key issue is the management rather than the elimination of risk.
As shown in the table below, there was a wide range of compliance & control change initiatives reported by respondents in place or planned. Activities include a focus on training and staff development, finance restructuring and integration, improved planning and controls, improved procurement, increased reviews and the use of shared services.

The current and planned change initiatives are encouraging, in particular for training and staff development, where nearly 60% of respondents have plans in place. Last year just one in six respondents had plans for training and staff development in order to secure change in this area. We felt that this was a relatively low level of response and a surprise, as part of the compliance & control issue to be addressed within the public sector is undoubtedly cultural. The key now will be for Finance to deliver the training and look to colleagues for support to help drive through the cultural change that is needed.

Two thirds of respondents reported that the main obstacles that may prevent them from achieving their aspirations for compliance & control were competing priorities. This was followed by a lack of skills and resources, organisational and cultural resistance to change and the challenges of managing change. Other obstacles were reported as dealing with financial constraints. The main response from central government respondents was organisational and cultural resistance. It appears that this is a more deep seated issue in central government than elsewhere in the public sector.

We asked respondents about their compliance & control performance in general and for a range of specific activity and functional controls and compliance, including internal audit, and the risk function. The tables on pages 25 and 26 show how respondents assess the compliance & control performance of their organisations in terms of the specific processes listed, now and in three years time.
Just 4% (7% last year) of the respondents to our research rated overall finance function compliance & control as high performing today, in the context of the organisation’s priorities. But nearly half of those same respondents aspire to be high performing in three years time. For those that do not aim to be high performing, they are virtually all aiming to be performing well.

In terms of specific process control and compliance matters, generally respondents assessed their performance at adequate or above, with 10% (11% last year and 12% the year before that) self assessed as high performing. There is a clear aspiration of respondents to perform better, with 35% (39% last year and 59% the year before that) of organisations seeking to be high performing in three years time.

Internal Audit is similarly self assessed at adequate or above, with 15% (9% last year and 22% the year before that) self assessed as high performing today and 35% (41% last year and 52% the year before that) seeking to be high performing in three years time.

Just under a third (compared to just over a third last year and 19% in the previous year) of respondents assesses treasury management as high performing. Respondents report an aspiration to improve this to 54% (48% last year and 51% the year before that) in three years time. It remains essential in our view to see improvements in this area, given funding concerns, tight cost pressures and public worry over the security of monies. The effective management of cash, and not just income and expenditure, is critical.
The area that scored lowest both this year and last year was the state of policies and practices over procurement. Here, one in ten respondents (17% last year and 11% the year before that) assess themselves as performing poorly and only 7% (the same as last year and 10% the year before that) rate themselves as high performing. There is a clear aspiration to improve and it is encouraging that just under half of the respondents reported that they have change initiatives planned or in hand for procurement. This is significantly higher than last year when just one in five respondents reported that they had improvement plans in hand.

External spend is a significant proportion of operational and infrastructure costs and Finance Directors need to procure with more confidence, so better procurement programmes will be necessary to generate cashable savings in both the short and medium term. Public sector bodies need efficient and effective procurement models. They need to reduce waste and enable good practice in commissioning with external business partners. They must become more commercial in their outlook, whilst at the same time protecting public funds. The importance of managing the investment in intangible assets should also not be underestimated.

We have reported before that it is not only value for money during procurement that is important. Finance also needs to ensure that ongoing contract management and monitoring processes are effective. There is a need to improve the success and delivery of major projects and ensure their continued quality during their life cycle. In our experience, managing change control, contract creep and invoice approvals can all contribute to identifying cashable savings. Improvements in contract performance monitoring can provide better value for money. So the need to focus on procurement appears to us to make its own case. But the way in which procurement compliance & control processes are applied can itself slow down the procurement process and so fail to deliver an optimum and timely result. Finding the right balance is the key and the public sector has often struggled with this.

<table>
<thead>
<tr>
<th>Compliance &amp; control process activity in three years time (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate governance</td>
</tr>
<tr>
<td>Finance policies and practices</td>
</tr>
<tr>
<td>Policies and practices over procurement</td>
</tr>
<tr>
<td>Treasury management</td>
</tr>
<tr>
<td>The risk function, including risk management</td>
</tr>
<tr>
<td>Internal audit</td>
</tr>
<tr>
<td>Process controls and compliance</td>
</tr>
<tr>
<td>Tax accounting and compliance</td>
</tr>
<tr>
<td>Performing adequately</td>
</tr>
<tr>
<td>0 20 40 60 80 100</td>
</tr>
<tr>
<td>57 55 57 44 55 55 54 43 54 54 48 50 50 50 61 61 61 61 61 61 61 61</td>
</tr>
</tbody>
</table>
Balancing competing demands

Compliance & control conclusions

We believe that control is not just a Finance activity. Overall responsibility for risk management and control belongs in the hands of executive management who need to manage business and compliance risks. But Finance needs to lead from the front and embed a controls culture deep within the organisation that it supports. It needs to strip out non value-adding controls and processes and bring its risk and control consciousness to the top of the organisation.

Building control upon control simply serves to create complexity and increase cost. The key is the effective management rather than the elimination of risk. This means Finance equipping line management with the skills to design and operate efficiently controlled processes. And it means integrating risk and control processes, stewardship and accountability reporting and creating a joined up framework to assess and monitor organisational risks.

More work is needed in this area to create the improved environment in which Finance Directors are looking to operate. The cost of quality remains high and it is essential in our view that the procurement processes are improved significantly, including the oversight of major projects. Only when Finance has sorted out the compliance & control environment effectively will it be able to find the time that it needs to focus strategically and provide more and deeper added value insight to the organisation. These actions taken together will help Finance to secure its aspiration to be a genuine business partner.
The Insight agenda

Insight is increasingly important in effective finance function delivery. It is about Finance adding value to the organisation and supporting the strategic and operational decision making process as a true business partner. This needs Finance to be proactive and help the organisation think about different ways of achieving its goals rather than waiting to support a decision.

For the public sector insight is also about contributing to the organisation’s performance management and the translation of policy into outcomes. Finance needs to become more than just a safe pair of hands. In this period of austerity the provision of good insight will enhance strategic financial leadership and strengthen the decision making process at all levels.

We asked respondents about insight processes in general and specifically for strategy and planning, budgeting and forecasting, management reporting, business analysis, performance management and cost management.

Respondents reported that they currently spend 30% of their time on the insight agenda, in line with last year and well up on the reported 20% for each of the two years before that. They reported that they are looking to increase this commitment to an ambitious 45% in three years time, which is higher than the 40% reported last year and the 30% reported in the previous year.

The aspiration to spend more time on insight mirrors what we have seen in the private sector. Hard statistical data, based on our research of Finance in the private sector, set out in Section 9, shows that leading finance teams in that sector inter alia:

- operate at 40% lower cost, expressed as a percentage of revenue, than typical private sector functions
- employ nearly 40% more people in business partnering roles and pay around 25% more than typical private sector finance functions to help attract quality professionals
- spend 17% less time on data gathering and 25% more time on analysis than typical private sector functions
- deliver forecasts in less than half the time and budgets 25% quicker than typical private sector functions

We recognise that some private sector solutions will not always fit well with the public sector. However, there does indeed appear to be a premium for reaching a leading position and not remaining ‘one of the pack’ in the private sector. It is hard to believe that the same would not apply in the public sector, despite the particular challenges of managing public monies.

Just 2% (nearly one in ten last year) of the respondents to our research rated overall finance function insight activity as high performing today, in the context of the organisation’s priorities. Some six in ten respondents this year and last year aspire to be high performing in three years time. For those that do not aim to be high performing, they are all aiming to be performing well.

There is a huge amount of work needed to translate ambition and aspiration for insight into plans, actions and change
There is a need to take a reality check here and consider whether or not this is a grounded ambition. Our first report into the future of finance, Finance at the Crossroads, was researched and published three years ago. At that time over two thirds of respondents expressed an aspiration to be high performing in three years time (by 2012). Central government respondents were a little less ambitious than local government respondents and the health sector respondents had the highest ambitions for insight.

Now we have reached 2012 and virtually no respondent today claims to be high performing and just under half of the respondents report that they are performing either adequately at best or poorly. So there is a huge amount of work needed to translate ambition and aspiration for insight into plans, actions and change.

The table below shows how respondents assessed their current performance for the individual insight processes listed. The results show how few respondents currently rate their individual insight activities as high performing, other than for budgeting and forecasting.

The aggregate levels of high performance and performing well show indicative improvements in budgeting and forecasting (up 3 percentage points), strategy and planning (up 10 percentage points) and cost management (up 1 percentage point). When compared to last year all other activities (performance management, management reporting and business analysis) are reported to be at similar levels.

No respondent rated business analysis as high performing (7% last year) and 14% (17% last year) rated it as performing poorly. Half the respondents this year and last year rated business analysis as performing adequately in the context of their priorities and requirements. Given the challenges facing public sector organisations this area needs a strong focus with the right quality of skills and resource deployed onto it and other insight activities. It will require a concerted effort to substantially increase the performance of business analysis activities. Business analysis is a fundamental skill of the finance professional and Finance needs to raise its game in this area if it is to genuinely act as a business partner.

Good insight will enhance strategic financial leadership and strengthen the decision making process at all levels.
The table below shows the insight activity aspiration in three years time. The reported three year aspiration is to eliminate poor performance in all the activity streams noted and to see a much higher level of performance, with a substantial level of high performance, particularly for budgeting and forecasting, strategy and planning and business analysis.

Generally the aspirations of respondents are up on last year. The strategy and planning high performance aspiration is 72% (compared to 65% last year and 53% the year before that), and the budgeting and forecasting high performance aspiration is up at 72% (compared to 61% both last year and the year before that). Offsetting these aspirations are 5 percentage point declines in high performance aspirations for business analysis and management reporting. Cost management and performance management aspirations are largely static year to year.

We reported last year that we considered that in the tough economic environment it is crucial that public sector organisations improve the accuracy and agility of their planning and forecasting. So it is encouraging to see the reported improvements and aspirations in these areas. We continue to believe that for performance management the role of Finance is to jointly own the business performance outcomes rather than simply contribute to reporting them.

There was a wide range of insight change initiatives reported by respondents to be in place or planned, as shown in the table opposite.

Reported change initiatives in place or planned include training and staff development, change management, finance restructuring and integration, technology investment, increased reviews, strategic planning and increased use of shared services. The focus on training and staff development is a welcome action, with over 60% of respondents indicating that they had such plans already in place and 40% of respondents reporting that they had future plans in this area.
The main obstacles which may prevent aspirations being achieved were reported as people-related issues pertaining to a lack of skills and resources, organisational and cultural resistance to change and the challenges of managing change. Indeed over half the respondents (60% last year) reported that lack of resources is a key barrier to achieving their insight aspirations. Other obstacles were reported as dealing with financial constraints.

Over four in five central government respondents cited organisational and cultural resistance to change and lack of skilled staff as the main obstacle that may prevent them from achieving their aspirations for Insight.

**Insight conclusions**

Strong insight and analysis capability is a prerequisite if Finance is to meet its own aspirations to step up across the board to become a business partner. Public sector finance professionals must be on the front line in supporting decision making. Our research shows that the ambition is there for Finance functions to provide quality insight and to act as a business partner. But history shows that the rate of progress is much slower than anticipated.

There is an insufficient level of high performance and hard tangible actions will need to be taken if future aspirations are to be met. Resourcing and the right level and capability of resourcing is crucial. Tackling the organisational resistance to change and deep seated cultural issues is also essential. Here Finance will need the leadership of the whole organisation to play a supportive role.
The importance of people

The crucial importance of the related issues of people management and organisational culture has been raised by research respondents in each of the last four years. A fundamental underpinning to effective people management is strong leadership. We believe that developing the right skills and capabilities within Finance to meet the future needs of the business is vital, as is promulgating financial awareness across the organisation as a whole. We welcome the finance transformation programme work, being led by the Government Finance Profession, to strengthen financial capability and raise skills levels across government. We comment further on this programme in Section 6.

In this Section we consider the people implications of Finance seeking to position itself as a business partner in terms of skill sets, training, development and reward.

We also touch briefly on leadership, both in the context of the organisation as a whole, and more fully in the context of Finance. Leadership is a highly significant factor that impacts on the reputation and positioning of Finance. We did not specifically research how leadership was provided by Finance Directors, although our research sought to understand Finance Directors’ plans to move their functions forward.

Leadership

The importance of leadership has been emphasised in recent years both by CIPFA and HM Treasury. CIPFA is clear that the CFO in a public service organisation must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively. To deliver these responsibilities, the CFO must lead and direct a finance function that is resourced to be fit for purpose and must be professionally qualified and suitably experienced.

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8 ‘The role of the chief financial officer in public service organisations’, CIPFA, June 2009
The January 2011 HM Treasury high level statement of intent Managing taxpayers’ money wisely stated that the public sector needs a fundamental shift in culture to become more commercial, adaptable and innovative. A required enabler of success includes effective leadership, driving performance from the top. Good leadership is the cornerstone of good performance in any effective organisation. In the public sector it requires the accounting officer and the board to work in harmony. With appropriate support and challenge from non executive board members, they must steer their organisations to deliver capability in their fields and manage risks.

It is quite clear that Finance Directors in the public sector have pivotal roles to play. The broader leadership of public sector organisations need to up their finance game more widely and embrace Finance. And Finance needs to be seen, and used, for its widest capabilities.

Increasingly Finance Directors are being asked to take on wider leadership roles within the organisation. This gives Finance the opportunity to showcase the full range of Finance skills and activities and really put its head above the parapet. By doing so, Finance can use its professional skills and disciplines as an integral part of the organisational leadership. It can impart its knowledge to non-finance staff and help drive up commercial awareness. Non Executives can also help by sharing the valuable, relevant and interesting lessons from the private sector.

People issues

Our research reconfirmed that people-related issues underpin many of the perceived barriers to future success for Finance. Respondents reported that the barriers that would prevent the perception of Finance changing to the role of business partner included a lack of resources and skills, the challenges of managing change and culture.

Culture was regularly instanced as something that impedes the development of Finance in the public sector. This is a refrain that we have heard in each year of our research and is particularly prevalent in the views expressed by central government research respondents. The term culture can mean different things to different people. Consequently it is often described as a problem without subsequent investigation into what that actually means. Organisations or functions should define what they mean by the term culture, measure it and understand the levers to changing the culture. Often these are a variety of people management processes (such as performance management and remuneration for example) but culture can also encompass working environment and leadership style.

Learning and development – it is encouraging that six in ten respondents reported that they have plans for training and staff development in order to secure change. This is a significant and welcome increase on last year, where only one in six respondents had such plans. There is no doubt in our minds that the implementation of appropriate strategies for learning and development for future finance leaders and their teams will be a critical ingredient for success.
Learning and development supports the development of business critical skills by looking beyond narrow technical competencies at how to develop leadership, communication and organisational collaboration. Finance needs to understand how the business it serves works. It is notable that top tier private sector organisations spend more than twice as much on learning and development than the average. Some have adopted a split comprising 70% on the job training and experience, 20% networking, relationships and feedback and 10% formal training. Developing a structured approach to ‘on the job’ training is proving to be the more difficult element.

Many of those private sector organisations who do well at the formal element of training have developed in-house finance training programmes, sometimes referred to as ‘finance academies’. Active talent management and growing a pool of talent internally is a key feature of their approach. Our private sector benchmark study (Section 9) shows that higher performing finance teams have tended to invest in ensuring that their technical skills are kept up-to-date. Just as importantly, they have developed group training initiatives to instil the values of the organisation and are nurturing leadership skills that enable people to interact and communicate effectively across the business.

Finance academies can play a key role in developing the necessary skills and behaviours for today’s finance professionals. These work best when there is active support and input from both leadership teams and the most important ‘customers’ of Finance. The key focus is how to use finance people more effectively and prepare them for stimulating career paths within the organisation. Group training can help the leaders of the future develop effective communication and team-building capabilities.

Skills needs – we have set out in the table above the wide range of skills needs that were highlighted by respondents to our research, together with some specific quotes from respondents that illustrate the people challenges. It is quite clear that many of these are key skills for acting as a business partner and go way beyond the core technical skills needed to do the day to day job.
The importance of people

The people implications of Finance seeking to position itself as a Business Partner

Just over a third of the respondents to our research see their role in Finance as business partners. And virtually every respondent reported that in three years time they would like Finance to be perceived by internal customers and other key stakeholders as a business partner.

In the role of business partner Finance works closely with the organisation, influencing, designing and executing strategy. Business partners provide insight analysis and advice to support business planning, most effective use of resources and other key strategic and investment decisions. While financial analysis is still a key element of the decision support provided by finance professionals, the cross-organisational ‘bird’s eye’ view of Finance also allows it to play a crucial role in broader areas of insight and analysis, including risk and performance management.

The role of business partner is a more mature and well recognised one in the private sector than the public sector and we have a greater body of evidence from our private sector research on which to draw when considering the attributes and issues connected with a successful business partner. Many of our observations here are therefore drawn from our experiences of the private sector. It is important to remember that there is just one single talent pool for Finance and so the skills and issues arising in the private sector should be a sensible template for consideration for the public sector.

Insight professionals – the capabilities needed by finance professionals are evolving and many traditional career paths are closing. Forward-looking finance teams in the private sector are seeking to identify what skills will be needed and how to nurture them within the business. Despite devoting more time and resources to providing strategic and commercial insights, most business teams are still not getting the level of meaningful analysis they need. The quality of the people carrying out the analysis is also crucial in providing effective decision support.

The average cost of insight professionals continues to rise and is considerably higher than the average rewards for finance personnel overall. Yet hiring and developing people with the right skills remains a challenge for the private sector. Finance is one of the areas where the difficulties of hiring the right talent are especially marked. Rewards are rising in line with the increasing emphasis on business insight. The annual cost for the average finance professional in the private sector is now £54,000, an increase of 10% over the past year. The average cost of ‘insight’ professionals is £85,000, a rise of 9% over the past year.

High potential middle managers have a key role to play. While many are not qualified accountants, they typically possess strong modelling skills, commercial acumen and the ability to translate data into everyday business language. Although hard to find and develop, this combination of business and analytical capabilities can provide valuable competitive insight and
perspective. The underlying attribute is the ability to translate streams of figures into compelling commentary and insight. A common feature of such people in the private sector is that they have spent time in the business, either before joining Finance or as part of a planned career development.

In contrast, often within the public sector, finance staff concentrate on developing their deep technical skills, often at the expense of acquiring wider experience. Senior leadership roles require a broad base of management skills and finance professionals have to be guided on how best to move outside the arena of technical development to acquiring those broader skills they will need to function effectively at the top table.

Developing business partners – many private sector finance teams are looking to adopt more of a service-oriented approach to their ‘customers’ within frontline teams. Business partnering is also coming to be seen as a core competency, which is applicable across a range of finance function roles. Dedicated business partner roles are typically held by more senior finance staff. They are expected to have the skills and experience to work alongside both the business units and strategic functions to influence, design and execute strategy and planning.

Business partnering as a broader competency requires an understanding of both financial and business drivers, along with the ability and readiness to challenge decisions and serve as a business advisor in a core technical specialism. This in turn demands agility of mind and the ability to collaborate with people across the business.

Nurturing a new breed of finance professional – changes to the demands placed on finance teams and how they are structured are transforming the career paths and core capabilities needed by finance professionals. Finance teams in the private sector are being refocused to provide forward-looking analysis, performance challenge and commercial support to help business leaders make effective decisions based on calculated risks. While accountability for shared service centre activities continues to be retained by Finance, the emphasis is on setting strategy and the need for transparency to maintain oversight and manage business risk.

Risk management – Finance’s role in risk management is expanding beyond financial risk to enterprise risk management. The business of government is increasingly more complex and organisations need an appropriate and effectively implemented risk management framework to address not only their risks but also the risks that come from working with other government partners and agencies. Compliance and risk management knowledge are increasingly rated as key competencies across all Finance roles as they are required to provide greater challenge and create awareness across the business and support the audit committee and the executive leadership.

Talent management – Nearly 80% of the business leaders interviewed as part of PwC’s 15th annual global CEO survey 2012 cited talent management as a key strategic priority. Finance is an important part of the focus on talent, with people strategies needing to be clearly aligned with overall business objectives.

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9 ‘PwC’s 15th annual global CEO survey 2012: Delivering results, growth and value in a volatile world,’ PwC January 2012
The challenge for many finance teams is how to recruit and retain the right combination of competencies for the different roles. Top performing finance teams are taking a more forward-looking approach to talent management. This includes marking out people with special potential, using clear and consistent criteria to help nurture the right skills, competencies and behaviours for key future roles.

The leaders are also developing clearly defined career paths to senior positions, which are helping to strengthen the talent pipeline and encourage greater retention. Succession plans are in place for more than 90% of key finance roles in the top tier finance teams in the private sector, compared to only around 40% among the average performers. The better placed functions are also giving finance professionals the opportunity to gain experience within the wider business and develop the social networks, organisational know-how and understanding of its culture and values that will be so important in their future leadership roles.

The companies in the private sector with the greatest success in developing effective finance leaders and encouraging them to make a long-term commitment to the organisation are using forward-looking tools for picking out future leaders and managing succession planning. This is underpinned by a consistent set of global criteria for assessing people with potential and formulating personal development plans, which are ideally led by line managers as part of their performance management requirements.

The active rotation of managers plays a key role in nurturing more effective performance capabilities and shaping a corporate culture that is open to change, new ideas and the development of best practice. Indeed, the ‘organisational know-how’ that results from rotation, networking and broadening experience is a vital, but often under-estimated, attribute in the development of agile and effective leaders. This understanding of the distinct culture and workings of an organisation is especially useful in helping to gain support and bring the business along in times of change.
People conclusions

People management strategies are essential ingredients of success and need to be in place to manage recruitment, deployment, performance, talent generation, career planning and succession. Finance needs to reflect carefully on the range of skills it needs to fulfil the business partner role it aspires to and is increasing called upon to undertake.

Experience in the private sector suggests that this is not a static agenda and new finance professionals are emerging. Finance needs to identify those people with the potential to take on insight roles and develop clear career paths, rather than simply relying on higher pay to attract experienced people. Identifying, supporting and retaining people with potential are important to the development and success of these operations. Short secondments of finance professionals both to and from other organisations in either the public or private sectors are seen by many as a beneficial developer of talent.

Business partnering has still to fully live up to expectations in the private sector. So adopting a sense of realism of what can be achieved in the public sector and in what timescale is important to manage expectations.

Finance will only be able to do so much on its own and will want to continually engage with the leadership of the whole organisation to drive change. This is an area where the sharing of lessons with a range of other organisations who have initiated culture change will be of particular benefit.

The approach to changing culture in the public sector needs to be driven right from the top of the organisation. Most importantly the whole leadership must embrace change and set the tone from the top. By the top we mean the Permanent Secretary, or Chief Executive, with the support of the whole board, the non executive directors and senior policy makers. Indeed, without this leadership, it is difficult to see how Finance can reach its goal of being a business partner.
Central government – developing a cost conscious culture

Author: John Berriman

The Finance Transformation Programme (FTP) for central government was launched in January 2011 with the publication of the foundation document Managing taxpayers’ money wisely.

The document is explicit in acknowledging that good management always includes good financial management. It requires that finance functions must drive financial awareness through the organisation, be supported by qualified non executive board members, and lead the finance functions in the whole corporate group. This remit includes the Arm’s Length Bodies of central government departments. The document also requires that finance functions must work to CIPFA’s core principles for senior finance professionals.

Managing taxpayers’ money wisely also makes it clear that financial skills are essential for all strategic decisions. Every public service function has a financial aspect which deserves proper assessment and resolution. Financial management should be at the heart of every business decision. It is not enough for central government departments to work through finance professionals. All senior civil servants must demonstrate a minimum level of capability with financial information and concepts so that they can make responsible corporate decisions in their organisations. Finance is as much about forward looking decisions as it is about accounting for current and past performance.

The Finance Transformation Programme

The stated vision for the Finance Transformation Programme is to strengthen financial discipline and achieve a fundamental shift in public sector culture so it becomes more commercial, adaptable and innovative – putting finance at the centre of decision making.

The programme focuses on four “enablers of success”, being: effective leadership, driving performance from the top; a cost conscious culture, so every decision is built on informed financial assessment; professionalism, so that all public servants (not just those in Finance) have financial awareness; and expert central functions, providing strategy to work toward common goals.
The core goals of the programme are set out in the Government Finance Profession 2011 Finance Transformation Programme vision statement, shown above10.

**Embedding a cost conscious culture**

One of the strands of the Finance Transformation Programme is the embedding of a cost conscious culture within central government departments. We explored progress in this specific area in our research this year.

13% of respondents reported that a cost conscious culture is embedded in their department to a large extent. The remaining 87% of respondents reported that such a culture was embedded only to some extent. So there is still quite some way to go to embed the principle of cost consciousness across central government.

Just under 60% of respondents reported that stronger leadership was required in their department to fully embed a cost conscious culture. This reinforces the importance of tone from the top and support from non financial leaders for the cost agenda.

A further 17% of respondents reported that improved cost information is needed to help embed the necessary culture. Other individual responses include the value of learning from best practice elsewhere, which chimes with our recommendations in Section 3.

Over 80% of central government respondents reported that they are very confident that they will meet their cost savings targets for the next 12 months. Confidence declines considerably when respondents look ahead three years, when only 31% of respondents are very confident of meeting their cost savings targets and a small minority (6%) are not confident at all of meeting their targets.

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10 ‘Putting finance at the centre of decision making,’ Government Finance Profession, 2011
Respondents reported that the main barriers to them achieving their cost savings targets are staffing issues, increased demands on Finance and cultural issues. Other individual responses include reference to the complexity and ambition of the reform agenda and the fact that some changes are politically difficult and subject to legal process.

On staffing, a third of respondents are not at all confident that the appropriate commercial and business skills currently exist in their finance teams. Better communication skills was noted by over half the respondents to our research as the leading skills gap that needs to be filled. A variety of actions are proposed to be taken by respondents to enhance the effectiveness of their finance functions, with staff development noted as the single most important action. This was followed by the implementation of improvement programmes, restructuring, recruitment and consolidation.

Finally, we asked respondents to indicate the single most important action that the centre (HM Treasury/ Cabinet Office) could take to assist finance functions in central government departments. Just under two thirds of respondents indicated that they wanted to see simplification of processes and just under a third of respondents wanted the centre to stop ad hoc requests that were impeding the ability of the functions to do their day jobs.

**Central government conclusions**

Central government is seized of the need for driving financial awareness through both departments and Arm’s Length Bodies. The vision for the Finance Transformation Programme lays out a clear endgame in terms of people, process, IT and structure for each of the four enablers of success.

In assessing the enabler of “embedding a cost conscious culture” there is still some way to go to embed this principle across central government. Respondents have made it clear that stronger leadership of this agenda is required across their government departments. Concurrently there is a need to up skill the capability of central government finance teams, through staff development activities and to enhance their commercial, business and communication skills.

Finally, there is a plea to the centre to simplify processes and minimise the level of ad hoc requests made on individual departments.

“Only 13% of respondents reported that a cost conscious culture is embedded in their department to a large extent.”
Local government – doing more for less and doing different things

Author: Michael Kitts

Finance in local government is charting a challenging course. On the one hand stewardship and safeguarding of public money and assets will always be critical. On the other, austerity and new ways of working mean that local authority finance professionals have to adopt approaches beyond what has been done before. This means more of a focus on acting as a business partner, being more proactive than reactive and more able to assess options or alternatives on a commercial as well as ‘public money’ basis. These two perspectives require different but equally valuable skills and approaches. So finance leadership in local authorities needs to consider carefully how best to effect this duality.

Changing the focus from saving money to achieving more

Our research shows that local government finance staff continue to be focused on cost reduction and efficiency. This is probably because the local government sector has seen greater cuts in 2011-12 (as they were front-end-loaded) than other sectors and has shed more staff through redundancies and early retirements than anyone anticipated. The sector expects more to come.

Traditional approaches to cost reduction have therefore been fully exploited and finance professionals are now being faced with the issue of where they go next. In this context 86% of respondents to our research are very confident that they will meet their cost savings targets in the next 12 months. But this confidence level drops to 47% in terms of meeting their targets in three years time. Respondents report that they need more commercial and business skills in their finance teams, as well as more technical skills.
Our experience suggests that the best authorities are shifting their emphasis away from the refinement of traditional service delivery (improving supply) and towards a greater focus on achieving more. In our view achieving more comes down to effectiveness rather than economy and efficiency. This is demonstrated in the diagram below.

This can be summarised as “doing different things rather than trying to do the same things differently”. 68% of respondents to our research reported that they will be providing different services in three years time and 32% reported that they will be providing the same services differently.

It might be helpful to consider the example of street cleaning by way of illustration. To increase the productivity of street cleaners, using better vehicles, revising routes or even outsourcing the service is about doing the same things differently. Working with the local community to improve ownership and respect for the public realm, educating young people and changing behaviours so that less litter is dropped, and therefore less needs cleaning up, is about doing different things. It fundamentally changes the demand for local government to spend money, rather than simply focusing on finessing supply.

Finance in local government needs to be able to support this agenda through their business partnering role. This requires a whole new set of skills and thinking and the change of culture that we have referred to in Section 5. Finance itself therefore also needs to do different things and not just do the same things differently.

**Changing delivery arrangements in local government**

There is a raft of new delivery arrangements that local authorities and their partners are being encouraged to explore. Examples include mutual bodies, arm’s length companies, Local Enterprise Partnerships supported models, charitable bodies, shared services, use of social impact bonds and tax increment financing (TIF).
All of these bring fresh challenges for local authority finance professionals who need to provide strong insights in order to act effectively as business partners.

There is a real challenge for Finance here in terms of supporting the public stewardship role and supporting the S.151 statutory responsibilities of the Local Government Act 1972, whilst also acting as a business partner and innovating around doing more with less. Local government needs finance professionals who can do both. This may not be the same person but it certainly is within the same function. The Finance Director needs to tread the line carefully between stewardship and innovation.

**Changing investment needs**

Many of the more established routes to secure investment by local government have ceased as traditional approaches to investment decisions change. There appears today to be less focus on satisfying HM Treasury and more on taking locally determined decisions to invest, reflecting local factors and broad based return on investment and risk-management analysis. Changes around business rate localisation, the introduction of Enterprise Zones and TIFs all mean that finance professionals have now more than ever to support the decision making process.

Some of the changes we have seen include:

- a focus on securing outcomes rather than simply delivering services as in the past – and a key question about whether intervention through capital investment makes service/outcome/financial sense as compared with doing ‘more of the same’
- locally taken investment decisions about investing locally – rather than chasing national pots of funding
- the importance of leadership in underpinning and funding capital investment – critical in particular in securing private partnering
- the need for confidence and informed estimates/judgements
- demonstrable passion for the objectives of such investment – often focused on place or securing citizens’ well-being
- a business case approach that is based on pragmatism, investment appraisal with a broader perspective and managed risk taking – perhaps highlighting the need to revisit HM Treasury guidance
- the need for new skills in the finance community. Whilst hard skills and accounting are still important, so too are advocacy, business partnering approaches, wider economic appraisal, market understanding, creativity and judgement.
Local government recognises more than ever the importance of investment and the broader impact it can have locally. Finance staff need to support an approach that "proceeds until apprehended and then seeks forgiveness, rather than seeking permission to act". The accounting profession must provide strategic financial input to the decision making process and consideration of future direction. This is about migration from reactive score-keeping to proactive business partnering.

**Local government conclusions**

Local government finance professionals need to address their statutory responsibilities whilst also focussing on the new world of change. There is therefore a careful balance to be struck between the compliance & control elements of their work and the efficiency and insight elements. Councils, like other public bodies, must act as stewards for public money. There are increasing demands upon councils to be transparent and safeguard public money and at the same time be entrepreneurial, risk-taking and innovative.

Never before has there been such a challenge upon council finance leaders to secure this duality – keeping the score and acting as a diligent caretaker on the one hand and innovator and business partner on the other. Our perspective is that both positions are essential. The skills required, culture and thinking of individuals delivering these roles may be different, but one is not more important than the other.

Our challenge would be about the way in which these aspects are delivered. There is clear scope to do more to automate and reduce the cost of maintaining the books and undertaking the more regular financial accounting matters. This might involve working with others to deliver the service. Financial management advice, innovation and business partnering are about co-working, person to person, team to team, often face to face, to co-create the right answers and the best solutions.

The challenge for future finance leaders in local government is to make space and create the right capacity for a more personal, creative and innovative business partnering approach.
**Health – a sector in transition**

Author: Janet Dawson

The changes to the health sector over the coming months and years have been widely publicised and debated. Under pressure to save up to £20 billion in the next three years, the government has embarked on what is seen as the most ambitious transformation agenda ever for the National Health Service.

Responsibility for commissioning health services will pass to the newly formed National Commissioning Board and clinical commissioning groups from 1 April 2013. They will be required to contract for services for their local population, drive improvement, for example where service standards are poor, or where other service provision models may lead to better outcomes, whilst maintaining financial grip within a reducing budget.

Existing service providers, such as the NHS trusts, may be required to deliver fewer or different services to stay within their financial constraints. The importance of providing high quality insight and maintaining organisational compliance & control in the next three years has never been greater.

The challenge of significant change

Our research indicates that the most significant challenge faced by health sector Finance respondents is responding to the change agenda, with 59% of respondents citing major change and 35% of respondents citing financial change as their greatest concerns.

Confidence levels of health sector respondents in meeting cost targets in three year’s time (%)
Respondents also indicated an overall drop in confidence in their organisation meeting its cost savings target in the next three years, with 38% of respondents indicating that they were not at all confident of meeting their three year cost target, compared to just 16% who were not at all confident of meeting their cost target for the immediate 12 month period.

Respondents identified a broad range of barriers that finance professionals in both commissioning and provider organisations are facing within the health sector, including political and leadership factors, the scale of the challenge, resource pressures and overall uncertainty in the direction of travel.

Our expectation is that, in an environment of great uncertainty, the time spent on compliance & control activities would be significant. Health sector research respondents indicate that it has stayed at 40%, in other words at similar levels to previous years. In developing the new organisations, it is important to establish strong and effective governance and risk management in particular.

The differing pace of change has resulted in greater uncertainty

Over the past 24 months, the levels of uncertainty have been high. There have been a number of changes to the proposed policy for the health service and delay in finalising and passing the health bill in Parliament. In the meantime, some areas of the country have moved more quickly than others to establish and support the development of new bodies within commissioning, leading to a variety of organisational structures and responsibilities being put in place. Providers working to determine future service levels and changes, financial baselines and contractual arrangements have been faced with changing roles, personnel and requirements within their commissioners over the past 12 months.

The clinical commissioning groups will be charged with understanding the reasons for poor service, financial pressure or distress within providers and then making changes to their commissioning decisions to support improvement, e.g. commissioning redesigned care pathways for patients, stopping the funding of certain services, or requiring the integration of others. In order to do this safely, both commissioners and providers will require the management information to measure performance and outcomes, and to demonstrate service improvement.

Greater insight will be required if the improvements to the health system and outcomes demanded by the government and the public are to be achieved by the new organisations. Areas where respondents hope to see the greatest improvements in insight priorities are in performance management and in business analytics. In our work with the sector, we are finding demand for better business analytics to support better commissioning decisions.

The importance of insight

‘Can do’ attitudes will be essential in bringing about the required changes
Finance skills development will be paramount

In parts of the country, SHAs have been successful in reducing PCT management costs by 40%. This includes significant reductions in the capacity of the finance functions within commissioning. So the transition that is under way will result in a substantial reduction in finance professionals working within the sector. Obviously in such circumstances a key risk is the ability to retain those with the requisite skills.

Concern has been expressed within the health sector that the skills required in the new system do not exist currently in the numbers required. We asked, given the extent of the transition and the barriers that the respondents had identified, what additional skills would be required within finance functions. The response was that additional commercial and business skills were needed.

But the nature of this transition is that the changing role of finance professionals within the health sector is not a simple development of supplementary skills within the existing workforce – it will require the development of new skills within individuals who, until now, perhaps had little responsibility for or even understanding of finance and the more commercial aspects of the health service. It will also require the development of a broader range of skills within fewer individuals. Leaders and managers of clinical commissioning groups will need to develop their understanding and experience of clinical and business information, to be able to work effectively with the remaining finance professionals within the system.

Health conclusions

We are in a time of significant change in the health service. Health finance professionals are losing confidence in their ability to manage the financial challenge ahead at a time when their numbers are being reduced within the service.

The uncertainty over the proposed changes over the past year has meant that the pace of change across the country has been variable, leading to different and in some cases temporary models of management. Increased commercial awareness and insight from a reduced number of financial professionals and among clinical commissioners will be essential for the changes to succeed.
Finance in the private sector

Introduction

In June 2012 we published our fourth annual benchmark report of Finance in the private sector. This draws on benchmark studies of more than 200 participating companies, including an in-depth assessment of the finance functions of 72 companies with operations around the world. The companies involved were largely FTSE 100 and 250 firms, as well as international groups of a similar size and complexity. The assessments were carried out between January and December 2011. Our review examined the new demands facing finance functions and why some finance teams are performing more effectively than others.

Highlights

Finance teams have an increasingly crucial role in strategic decision making. Managing risk and uncertainty is an important part of this. Having become accustomed to operating in a volatile environment, what businesses most want from their finance teams are the forward-looking insights needed to compete in local, regional and global markets.

While Finance budgets in the private sector have had to rise to meet the demands of a new and often unfamiliar business and regulatory environment, the companies that spend most as a proportion of their overall revenue are not necessarily the best performers in our benchmark analysis. Indeed, the finance functions that rate highest across the areas of insight, efficiency and control tend to run at a lower cost, expressed as a percentage of revenue, reflecting both the efficiency of their operations and their success in helping to stimulate business growth.

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11 ‘Putting your business on the front foot’ Finance effectiveness benchmark study 2012, PricewaterhouseCoopers LLP, June 2012
The top tier finance teams in the private sector are distinguished by their ability to identify the insights that give their business an edge and concentrating resources on these priorities. This is underpinned by timely and reliable data and investment in the people capable of providing commercially astute analysis. Effective automation, organisation and sourcing strategies also allow the best performing finance teams in the private sector to focus more closely on decision support, while keeping a firm hold on costs.

Our benchmark analysis raises questions about whether key management information is sufficiently relevant or timely to be of real use to private sector boards and business teams and whether financial risks are being managed effectively. The underlying concern is the extent to which some finance teams in the private sector have found themselves caught in the headlights of uncertainty and change, reacting to events in a defensive manner, rather than dealing with them in a sufficiently proactive or decisive way.

**Findings**

CFOs in the private sector are striving to sustain shareholder value and strengthen enterprise risk management in the face of the new economic landscape that is emerging from the financial crisis. Most benchmark participants to our research are also seeking to improve their internal and external reporting systems as they look to provide the information stakeholders need in a faster, more aligned and more cost-effective way.

These objectives are reflected in the extra time and effort devoted to providing strategic and commercial insights, as well as strengthening control. Investment in Finance, expressed as a proportion of revenue, is also increasing. Yet, despite the increased resources, most finance teams in the private sector are struggling to deliver the sharper, timelier and more proactive management information needed to enhance reporting, risk management and decision support.

Private sector finance teams that are performing in the top quartiles of business insight, efficiency and control have been able to make their investment in people, systems and new operating structures really count. Indeed top quartile performers often spend less than the average, so it is not how much they spend that marks them out.

Moving from reactive to proactive management information

Most private sector finance teams believe that their budgets, forecasts and period end reports could be better. 80% of our research participants report that the accuracy of their forecasts is critical to the running of the business, but only 45% of these believe the outputs are reliable.

The time taken to complete budgets and forecasts is often too slow to provide a valid basis for decision making, with turnaround times seeing little improvement in recent years. The gap between leading and average finance teams in the private sector demonstrates what is possible with the right data, people and approach and is likely to be a telling differentiator in companies’ ability to improve the bottom line.
Regular dialogue with the business helps to make sure that the resources of finance teams are focussed on management information that is genuinely useful. Nearly half of participants carry out such reviews and it is telling that they tend to generate around a third of the standard reports produced by the average private sector company.

**Distinguishing good and average** – finance budgets have risen across the board in the private sector, but top tier finance teams are operating at lower costs, expressed as a percentage of revenue, because they are not only more efficient, but their insights are also helping the revenue for their businesses to grow quicker than their running costs. Clear identification of business requirements and making these outputs a priority allows them to focus resources more effectively. The front-runners are also developing the people and analytical capabilities needed to provide genuinely useful analysis and applying the controls needed to instil confidence in the underlying data.

**Technology is no good without the right data feeding it**

Many participants in the private sector are relying on manual workarounds to meet increased reporting demands. Around 60% of participants still rely on manual spreadsheet manipulation for reporting. Others have made significant investment in technology, but have seen little improvement in the speed and quality of management information and regulatory reporting.

Technology will not make a difference unless the data is up to scratch. A clear sign of the deficiencies is that around half of the private sector participants have a data warehouse, but barely 10% have applied the consistent firm-wide data standards (‘standard taxonomy’) required for true comparability.

**Distinguishing good and average** – top performing finance teams have adopted an integrated approach to planning and management reporting processes, systems and data, where fixing the data is the first step.

**Strengthening Enterprise Risk Management is proving difficult**

More than 90% of participating companies have a dedicated risk management function in place. But only around half (mainly FTSE 100 groups) believe they have the necessary framework in place to monitor, manage and communicate enterprise-wide risks effectively. There may also be an element of overconfidence in how well controls are actually operating in the business. More than 90% of participants have established policies and governance structures to manage risk. But less than a quarter report that key controls have been effectively tailored and assessed for risk assurance.

**Distinguishing good and average** – companies that are managing risk effectively highlight the importance of robust governance structures and close co-operation between risk and finance teams, underpinned by timely and reliable management information. They are also strengthening their ability to detect and manage emerging threats through more effective scenario and sensitivity analysis.
Keeping pace with rapidly evolving talent demands

Amid the prevailing shift of effort away from transaction processing towards greater decision support, the capabilities required by finance professionals in the private sector are evolving and many traditional career paths which started out in transaction accounting and routine financial reporting are no longer an option. Companies are looking for people with the commercial acumen and interpersonal skills needed to work with different parts of the business. There is also an increasing demand for specialist finance expertise in areas such as tax and treasury. The challenge for many is to recruit and retain the right combination of competencies for the different roles.

Distinguishing good and average – companies that are managing talent more effectively are not necessarily paying more to attract the right people in the short term, but are developing forward-looking plans for what skills will be needed, how to develop them within the business and how to track delivery against objectives in a systematic way.

Shared service development gathers further momentum

The move to shared services continues to gather pace in the private sector with a growing emphasis on the development of multi-function business service centres, which seek to integrate finance with other support functions such as IT, HR and procurement. Finance is often located around a number of inshore and offshore locations, depending on the role, with many companies now developing centres of excellence in areas such as reporting and tax.

Experience of how to make this ‘next generation’ model work underlines the importance of ensuring that governance structures and management skills keep pace with the growing scale and complexity of the shared service operations. Clear definition of responsibilities is also essential, both within the retained and outsourced elements of the business.

Attributes that set top performers apart in the private sector

**Insight**

- A forward-looking approach with rolling forecasts and analysis is adopted. This enables companies to keep pace with market developments and anticipate emerging risks and opportunities for the business.

- Time and resources are focused on activities that count. Leading finance teams spend 17% less time on data gathering and 25% more time on analysis than typical functions.

- Key management information is turned around faster. Leading finance teams deliver forecasts in less than half the time and budgets 25% quicker than typical functions.

- Finance resources are freed up to focus more on effective decision support. Leading finance teams employ nearly 40% more people in ‘business partnering’ roles and pay around 25% more than typical functions to help attract quality professionals.

- Forward planning on talent management. Leading finance teams report on average 30% more people with special potential in their talent pool compared with typical performers.
Efficiency

• Delivering more for less. Leading finance teams operate at around 40% lower cost, expressed as a percentage of revenue, than typical functions.

• Faster period-end close allows more time to analyse key financial information and its implications. Leading finance teams are reporting 30-40% faster than the typical function.

• There is a focus on the next tranche of shared services through the development of ‘lean’ approaches and multi-function and hybrid sourcing models which can combine outsourced and captive operations.

• Technology is used smartly to drive process standardisation, deliver scale efficiencies and enable faster integration of new operations.

• Up to date and actionable KPIs are adopted that allow management to track improvements and tackle bottle necks and other problems.

Compliance & control

• Risk of error is reduced. Leading finance teams have automated 70% more of their key controls than typical functions.

• Key controls are tailored effectively and assessed for risk assurance.

• Leading teams avoid over-burdening the business with excessive controls. While top tier finance teams have got the balance right, most others believe that they have an excessive number of controls and report that internal controls are not fully integrated with compliance processes, which can create needless extra burdens.
A new model of finance function effectiveness and new breed of finance professional are emerging as complexity, volatility and ambiguity become the norm, growth shifts to new markets and strategic agility becomes the key competitive differentiator. The top tier finance teams in the private sector are becoming sharper and more focused in their decision support and developing leaner and more efficient use of their resources to make sure they are delivering where it counts.

Just as the past has been shown by recent events to be a poor guide to the future, old ways of working may no longer be appropriate in a very different commercial landscape. Many private sector finance teams are making the shift, but cultural and operational hurdles remain. The front runners are concentrating on what the business actually needs rather than what they have traditionally produced. In these companies the roles and expectations of business partners are clearly defined and they have the tools and training to bring them up to speed. The underlying attribute of the leaders is the recognition that the capabilities needed to provide the most effective support for the business are changing. Leading performers are therefore taking a farsighted approach to identifying, developing and rewarding the right people and skills.

Further foundations for success include adapting organisational design and sourcing strategies to the changing environment. This includes the development of a ‘next generation’ hybrid sourcing model, which seeks to make the most of the synergies with other operational teams, while bringing decision support closer to the frontline of the business.

The underlying difference between the front runners and the rest in the private sector is their ability to change their mindset and approach.

There is little point in producing annual budgets that are largely out of date before they are even put before the board. Similarly, how can finance partners support the business if their training, career development and performance objectives are still confined to a narrow set of technical criteria? Farsighted finance teams have taken the cultural leap. They are making sure that forecasts are timely enough, accurate enough and sufficiently sensitive to business drivers to provide a clear and genuinely actionable basis for strategic and performance management. This is underpinned by close engagement with the business, a clear understanding of its commercial objectives and a willingness to challenge strategy where necessary.

These demands are going to take Finance in the private sector in new and potentially unfamiliar directions. The ability to aggregate and analyse performance data quickly from multiple operating territories will be crucial to the effective management of today’s global organisations. At a time when the way both boards and shareholders evaluate and judge performance is changing, this includes non-financial as well as financial information in areas such as risk, talent and sustainability. In turn, Finance’s traditional focus on financial risks is being broadened as it increasingly comes to the forefront of enterprise risk management.

While many of the traditional roles and career paths in Finance may be closing, these developments provide finance professionals in the private sector with an opportunity to carve out a more influential strategic role in the evolving world of modern business. The profile of the typical finance professional is also changing, with a growing expectation for well-developed business understanding and engagement skills, as well as sharp technical and analytical insights.
We set out below four year summary trend information on the vision, strategy and role of Finance, the importance it places on seeking best practice and its insight, efficiency and compliance & control activity performance.
Efficiency, Compliance & Control

Insight activities – “performing well” or “high performing” (%)

High importance placed on seeking external best practice from other organisations (%)

Time spent on Efficiency, Compliance & Control and Insight (%)

Business analysis
Performance management
Management reporting
Strategy and planning
Budgeting and forecasting
Cost management*

*Not evaluated in 2008/09
### Four Year Data Summary

#### Efficiency Activities – “Performing Well” or “High Performing” (%)

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#### Compliance & Control Activities – “Performing Well” or “High Performing” (%)

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*Not evaluated in 2008/09

*Not evaluated in 2009/10

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*Results reflect an evaluation of the organization’s performance in managing key processes and controls, with a focus on efficiency and compliance.*
Contacts in PwC

About PwC

PricewaterhouseCoopers has been helping government and public sector organisations locally, regionally, nationally and internationally for many years. We focus on three things for government and the public sector: assurance, tax and advisory services. Working together with our clients across local government, health, education, transport, home affairs, housing, social care, defence and international development, we look for practical, workable solutions that increase efficiencies while improving quality and outcomes. We continually strive to make a difference in solving the pressing challenges that are being faced every day.

About the PwC Government & Public Sector Finance Board

The PwC Government & Public Sector Finance Board is the sponsor of this research. The Finance Board has a wide remit and this includes the monitoring of finance trends in the public sector, sponsoring of research into finance matters and developing market propositions.

The board oversees the wide-ranging finance relationships that exist between PwC and the broad range of organisations with whom we work, across central government, local government and the health sector, as well as with other key stakeholders across the public sector. The board comprises specialists drawn from across PwC who provide advice on a wide range of public sector finance matters.
**About the Authors**

**John Berriman** chairs the Finance Board and leads our Education and Real Estate practices and our relationship with the CBI. John was a member of the PwC Executive Board between 2000 and 2006 and his responsibilities, as Head of Finance and Operations, included finance, operations, governance and sustainability. He led a wide-ranging PwC transformation programme, encompassing cost reduction, automation, simplification, shared services and outsourcing. John is a member of an HM Treasury panel of independent advisors on strengthening financial discipline in the public sector.

**Janet Dawson** is a member of the Finance Board and leads the delivery of services to the health market. She has worked with the NHS for over 20 years, providing services to both provider and commissioning organisations. As well as leading audit engagements, she has worked with Monitor on Foundation Trust application assessments, with PCTs on financial baseline reviews and provider organisation transactions due diligence. She has recently been appointed to support the National Commissioning Board Authority in the authorisation of 220 Clinical Commissioning Groups.

**Michael Kitts** is a member of the Finance Board and leads our Government and Public Sector and consulting business across the Midlands. He is an accountant and worked in the public sector for 20 years, most recently as a local authority finance director, before joining PwC in 2000. Michael leads teams delivering support around new ways of working, cost reduction and transformation. Michael and his team put a real focus on how the whole organisation can secure better customer and stakeholder outcomes – delivering more or better for less – a challenge facing both public and private sector clients.
About the analysis and editorial team

We are grateful to the PwC editorial team who assisted and advised on the production of this report, in particular David Thompson and Clare White. Special thanks are due to Colette Duff and Frances McVeigh in the PwC International Survey Unit team who designed and ran the survey process and analysed and interpreted the data returns and to Andy McCorkell and Gavin Hildreth, who advised on how Finance is performing in the private sector.

Contact the Finance Board

Please contact any of the members of the Finance Board if you would like to know more about this report or about the particular finance-related services offered to the public sector by PwC. We are always delighted to share our thoughts and ideas on current issues, challenges and best practice.

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